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PETITION TO REVIVE ABANDONED APPLICATION FOR PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: Mitchell et al. Group Art Unit:1645
Serial No.: 10/614,940
Filed: July 7, 2003
For: Oral Rehydration Compositions Containing Liposomes

Commissioner of Patents and Trademarks
Mail Stop Petition
PO Box 1450
Alexandria, VA 22313-1450

PETITION TO REVIVE ABANDONED APPLICATION UNDER THE PROVISIONS OF 37 C.F.R. 1.181, 37 C.F.R. 1.182, 37 C.F.R. 1.183, AND 37 C.F.R. 1.137(A)

Dear Sir:

Petitioner Cheryl R. Mitchell and James B. Mitchell by and through their attorney respectfully petition the Commissioner of Patents and Trademarks to revive the above-identified application.

For the reasons stated below, Petitioner asks that the Commissioner to exercise authority pursuant to 37 C.F.R. §§1.181, 1.182, and 1.183 to revive the application.

Alternatively, Petitioner requests revival of the application under 37 C.F.R. §1.137(a).

Documents and Fees Filed in Support of this Petition

In support of this petition to revive, Petitioner incorporates by reference all the documents in the application prosecution history and files herewith the following documents and fees:

- Memorandum Opinion, Court of Chancery of the State of Delaware in and for New Castle County, *Creative Research Manufacturing v. Advanced Bio-Delivery LLC and Phlo systems, Inc.*, Civil Action No. 1211-N, Decided January 30, 2007.

- Final Judgment and Order, Court of Chancery of the State of Delaware in and for New Castle County, *Creative Research Manufacturing v. Advanced Bio-Delivery LLC and Phlo systems, Inc.*, Civil Action No. 1211-N, Decided January 30, 2007.
- Affidavit of Cheryl R. Mitchell.
- Affidavit of James B. Mitchell.
- PTO Form SB/61: Petition for Revival of an Application for Patent Abandoned Unavoidably Under C.F.R. §1.137(a).
- PTO Form SB/81: Power of Attorney and Correspondence Address Indication Form.
- Fee 1.17(f) in the amount of \$400.00.
- Fee 1.17(l) in the amount of \$250.00.

Presentation of Facts

The facts involved in this case are provided in the documents set forth above and the prosecution history. Below is a summary.

This is a case of winning the battle, but unfairly losing the war. In 2001, Cheryl and James Mitchell were officers of Creative Research Manufacturing, Inc. (“CRM”), which had a research agreement (“Alliance Agreement”) with Phlo System, Inc. (“PSI”) and Advanced Bio-Delivery LLC (“ABD”). Under the Alliance Agreement, various intellectual property was to be developed by CRM and assigned to ABD/PSI.

In 2003, Cheryl and James Mitchell developed a new composition for improving oral rehydration. Cheryl and James contacted patent attorney Kristofer E. Halvorson file the above mentioned application on July 7, 2003. Pursuant to the Alliance Agreement, Cheryl and James assigned the application to ABD/PSI on February 11, 2004.

Starting in February 2005, James B. Hovis, CEO of ABD/PSI took some extraordinary steps that severely damaged Cheryl and James. On February 23, 2005, two days before accusing CRM of breaching the Alliance Agreement, Hovis as assignee of the application appointed his own counsel as attorney of record thereby stopping Cheryl and James from controlling prosecution of the application. CRM denied being in breach and filed suit on March 25, 2005 to recover the application. At some point, Hovis decided to not defend the suit. On January 24, 2006, two days before a scheduled hearing where CRM

would again move for default judgment; Hovis drafted PTO Form SB/24 to expressly abandon the application. Hovis filed for express abandonment on January 26, 2006, the very day that CRM moved a second time for default judgment.

The final judgment entered January 30, 2007 in favor of CRM ruled that the “Alliance Agreement [was] void *ab initio*.” Final Order and Judgment, paragraph 1. The court ruled that “[t]he assignment [of] . . . Patent Application No. 10/614,940 . . . is rescinded and of no force or effect.” Final Order and Judgment, paragraph 3. The court further ruled that “[t]he Express Abandonment as filed by the Defendant . . . is deemed invalid *ab initio* as between the parties in this case.” Final Order and Judgment, paragraph 4.

Cheryl and James won the court battle, but were unfairly deprived of justly receiving the return of their property due to the unfair action Hovis took in abandoning the application. Petitioner requests that the Commissioner act in the interest of justice to revive the application and restore it to Petitioner.

Action Requested Under 37 C.F.R. §§1.181, 1.182, 1.183

Pursuant to 37 C.F.R. §§1.181, 1.182 and 1.183, the Director may invoke the supervisory authority of the Director in appropriate circumstances. 37 C.F.R. 1.181(a)(3). The instant situation, as set forth above, may not specifically be provided for in the regulations and may need to be decided in accordance with the merits of the situation by or under the authority of the Director. 37 C.F.R. 1.182. Since the present situation is an extraordinary situation, Petitioner requests that where necessary the Commissioner suspend the rules regarding express abandonment and revive the application in the interest of justice. 37 C.F.R. 1.183.

Pursuant to §1.181(a), Petitioner requests the Commissioner to find that the application was not in fact abandoned and to permit the application to resume prosecution where it left off on February 11, 2004. A decision to find that the application was in fact not abandoned is supported by 37 C.F.R. §1.138(b) and the Final Judgment and Order issued by the Chancery Court.

Pursuant to 37 C.F.R. §1.138(b), a written declaration of abandonment must be signed by a party authorized under §1.33(b)(1) (patent practitioner of record), §1.33(b)(3)

(assignee), or §1.33(b)(4) (all applicants).

The written express abandonment filed January 26, 2006 was signed by James B. Hovis. Hovis is not listed as a registered patent practitioner in the USPTO database as of February 20, 2007. Accordingly, the express abandonment was not validly executed under §1.33(b)(1).

In the “Transmittal Letter for Filing Express Abandonment,” Hovis alleges that he was intentionally omitted from the application as an inventor. Assuming, *arguendo*, that Hovis is an inventor, which he is not, §1.33(b)(4) requires that all applicants sign an express abandonment. Cheryl and James Mitchell did not sign the express abandonment, accordingly the express abandonment was not validly executed under §1.33(b)(4).

37 C.F.R. §1.33(b)(3) permits an assignee as provided for under 37 C.F.R. §3.71(b) to execute a valid express abandonment. Under 37 C.F.R. §3.71(b)(1), an assignee must establish ownership of the patent application by submitting either evidence of a chain of title (e.g., an executed assignment) or evidence of recordation of assignment. Although Cheryl and James Mitchell executed an assignment, that assignment was rescinded by the Chancery Court and found to be of no force or effect. Final Order and Judgment, paragraph 3. Pursuant to the Court ruling, ABD, PSI, and/or Hovis were never the assignee or the true owner of the application. Accordingly, the express abandonment was not validly executed under §1.33(b)(4).

37 C.F.R. §1.138(b) permits a registered practitioner, not of record, who acts in a representative capacity when filing a continuation application to expressly abandon the prior application. In this situation, no continuation application was filed and Hovis is not a registered patent practitioner, accordingly the express abandonment was not validly executed under any terms of §1.138(b).

As a result, the requirements for a valid express abandonment were not met and Petitioner requests that the Commissioner find the express abandonment to be invalid and of no effect thereby reviving the application for the continuation of prosecution by Petitioner.

In the alternative, Petitioner requests that the Commissioner withdrawn the holding of abandonment and revive the application in the interest of justice. Justice will be served by restoring Cheryl and James Mitchell to their position before the actions taken by

Hovis. The Petitioner requests that the Commissioner adopt the ruling of the Chancery Court that the assignment was not valid and is of no force. The Petition further requests that the Commissioner adopt the ruling of the Chancery Court and that the express abandonment was invalid *ab initio*.

The Petitioner further requests that Kristofer E. Halvorson be recognized as the attorney of record for the application. As set forth above, Hovis did not qualify as an assignee, accordingly, Hovis did not have the authority to appoint an attorney of record. Thus, Mr. Halvorson was never removed as attorney of record. Even if Hovis did have the authority to assign an attorney of record, which he did not, Hovis did not revoke Mr. Halvorson as the attorney of record, but simply added Mr. Gass as an additional attorney. Hovis filed a version of PTO Form SB/81 that does not expressly revoke all previous powers of attorney. Accordingly, Mr. Halvorson has always been an attorney of record. In the alternative, Petitioner requests the Commissioner to recognize Petitioner as the true owner of the application and to accept the power of attorney filed herewith that appoints Mr. Halverson as the attorney of record.

The Petitioner files herewith in support of this request under §1.181 etc. the fee set forth in 1.17(f).

Action Requested Under 37 C.F.R. §1.137(a)

In determining if a delay was unavoidable, decisions on reviving abandoned applications have adopted the standard of the reasonable prudent person acting in their most important business matters. *Ex parte Pratt*, 1887 Dec. Comm'r Pat. 31, 32 – 33 (Comm'r Pat. 1887). At bottom, the question is one of diligence. *See Changes to Patent Practice and Procedure: Final Rule Notice*, 62 Fed. Reg. at 53158-59 (October 10, 1997); *Ray v. Lehman*, 55 F.3d 606, 608 – 609, 34 USPQ2d 1786, 1787 (Fed. Cir. 1995). The Petitioner must provide direct evidence proving exactly a factual basis supporting a showing of unavoidable delay required for relief to be granted. *Krahn v. Commissioner*, 15 USPQ2d 1823 (E.D. Va. 1990).

Petitioners Cheryl R. Mitchell and James B. Mitchell are the inventors of Application No. 10/614,940. *See Declaration and Power of Attorney, prosecution history,*

filed 7/7/2003. Petitioner assigned the application to Phlo System, Inc. (“PSI”) on February 11, 2004. *See Assignment by Inventors of Patents*, prosecution history, filed 03/07/2005. On March 7, 2005, the assignee (Hovis), PSI, appointed its own attorney of record. *See Power of Attorney and Correspondence Address Indication Form*, prosecution history, filed 03/07/2005. After February 11, 2004, previously appointed counsel, Kristofer E. Halvorson, and Petitioner did not have control of the prosecution of the application. On April 24, 2006, Mr. Halvorson filed a petition on behalf of Petitioner to revive the application. The petition was denied because, *inter alia*, the attorney of the Office of Petitions found that Mr. Halvorson was not the attorney of record. *See Petition Decision*, prosecution history, pg. 1, filed 06/07/2006 (“as of 7 March, 2005, Petitioner no longer was empowered to prosecute the instant application”). Accordingly, Petitioner could not exercise control over the application or the prosecution of the application after March 7, 2005.

Before February 11, 2004, no Office Action had issued and no response from the inventors was outstanding. Petitioner exercised diligence in prosecuting the application until their control over prosecution was assigned on February 11, 2004.

Between March 7, 2005 and the filing of this petition, the Hovis filed for express abandonment of the application. *See Transmittal Letter for Filing Express Abandonment*, prosecution history, filed 01/26/2006. At the time, Petitioner was involved in litigation with the assignee to adjudicate ownership of the application. *See Memorandum Opinion*, pg. 5 (CRM filed suit on March 25, 2005). When Petitioner discovered that the assignee had abandoned the application, Petitioner immediately filed a petition to revive. As set forth above, the petition to revive was denied. In spite of Petitioner’s diligence in filing the earlier petition, Petitioner’s actions would not be recognized until the litigation was concluded and ownership of the application returned to Petitioner.

On January 30, 2007, the Chancery Court of Delaware issued a Memorandum Opinion and a Final Judgment and Order, both filed herewith. The court ruled that “[t]he assignment [of] . . . Patent Application No. 10/614,940 . . . is rescinded and of no force or effect.” *See Final Order and Judgment*, paragraph 3. The court further ruled that “[t]he Express Abandonment as filed by the Defendant . . . is deemed invalid *ab initio* as between

the parties in this case. See Final Order and Judgment, paragraph 4.

The lapse of prosecution by Petitioner was unavoidable because Petitioner could not control prosecution of the application until the litigation was concluded. Petitioner acted as a reasonably prudent person in the prosecution of the application while it was within Petitioner's power to control the prosecution. Petitioner diligently sought to protect Petitioner's property by filing suit to recover Petitioner's property. Petitioner further showed diligence by filing the prior petition to revive upon discovery of the express abandonment. As the Memorandum Opinion shows, the Petitioner was diligent even in the litigation. Any delay by Petitioner in this matter was completely unavoidable because Petitioner had to wait for the resolution of ownership by the court.

Petitioner requests that the Commissioner:

- Adopt the ruling of the Court of Chancery of Delaware that (1) the assignment is of no force or effect and (2) the express abandonment is invalid *ab initio*;
- Accept the appointment of Kristofer E. Halvorson as the attorney of record;
- Find that Petitioner was diligent in prosecuting the application;
- Find that the delay by Petitioner in prosecuting the application was unavoidable;
- Revive the petition as requested in the PTO Form SB/61 filed herewith.

The Petitioner files herewith in support of this request under §1.137(a) the fee set forth in 1.17(l).

Date: 3/15/07

Respectfully submitted,

Kristofer E. Halvorson
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IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

CREATIVE RESEARCH MANUFACTURING,)
)
Plaintiff,)
)
v.) Civil Action No. 1211-N
)
ADVANCED BIO-DELIVERY LLC and)
PHLO SYSTEM, INC.,)
)
Defendants.)

MEMORANDUM OPINION

Submitted: November 8, 2006
Decided: January 30, 2007

Philip A. Rovner, Esquire, Matthew E. Fischer, Esquire, POTTER ANDERSON & CORROON, Wilmington, Delaware; Roger Royse, Esquire, ROYSE LAW FIRM, PC, Palo Alto, California, *Attorneys for Plaintiff/Counterclaim Defendant Creative Research Manufacturing*

No attorney appeared for Defendants/Counterclaim Plaintiffs Advanced Bio-Delivery LLC and Phlo System, Inc.

PARSONS, Vice Chancellor.

Plaintiff, Creative Research Manufacturing (“CRM”), filed a complaint against Defendants, Advanced Bio-Delivery LLC (“ABD”) and Phlo System, Inc. (“PSI”) (collectively, “Defendants” or “ABD/PSI”), in this Court on March 25, 2005. The complaint alleges that Defendants breached their contract with CRM and misappropriated CRM’s intellectual property, a major component of the parties’ agreement. On July 28, 2006, based on ABD/PSI’s failures to comply with a court order, meet its discovery obligations and obtain counsel, this Court entered a limited default judgment against Defendants directed to the merits of this action. The order provided, among other things, that the allegations of CRM’s verified complaint be deemed true, established, and proven and that CRM was not in default of its obligations under the contract. Pursuant to Court of Chancery Rule 55(b), the Court also ordered that a further proceeding be held to consider the remaining aspects of CRM’s proposed default judgment, including its entitlement to damages and any of the other relief it sought. The Rule 55(b) hearing took place on October 27, 2006, and Defendants failed to appear. For the reasons that follow, the Court grants subject to a few modifications CRM’s proposed Final Judgment and Order.

I. FACTS AND PROCEDURAL HISTORY

A. The Dispute Between CRM and ABD/PSI

The following facts come from the verified complaint, the allegations of which are deemed true, pursuant to the July 28, 2006 Order, as well as CRM’s reply to Defendants’ counterclaims. Any facts alleged in CRM’s reply are deemed true for the same reasons stated in the ruling supporting the Court’s July 28, 2006 Order.

Plaintiff CRM is a California corporation with its principal place of business in California. Defendant ABD is a Delaware LLC formed in June 2000 with its principal place of business in New Jersey. Defendant PSI is a Delaware corporation formed in August 1999 with its principal place of business in New Jersey. PSI manages ABD and is wholly-owned by Phlo Corporation, a publicly-traded Delaware corporation.

CRM operates a contract research and development facility with some manufacturing capabilities. In or about 2001, CRM and ABD/PSI began discussions regarding the possibility of CRM licensing certain technology to ABD. The parties ultimately entered into an Alliance and Services Agreement (the "Alliance Agreement") in August 2002, but made it effective as of November 15, 2001, because CRM had been providing services to Defendants since that time. As part of the Alliance Agreement, CRM made available two of its products and related technology to ABD/PSI, giving it a "worldwide, exclusive, sublicensable, royalty-free, perpetual irrevocable license and right to the CRM Technology."

Under the Alliance Agreement, CRM undertook to provide research and development services to ABD/PSI by devoting ten days per month in its lab to work for ABD/PSI. In exchange, CRM was to receive a 15% interest in ABD and the greater of 3% of ABD's operating profit or "minimum distributions" of cash payments. For calendar year 2002, the "minimum distribution" amount to CRM was \$200,000; thereafter, the minimum annual amounts were \$300,000. The Alliance Agreement had an initial term of three years.

ABD/PSI launched several products based on CRM's technology and services. Meanwhile, CRM continued to develop new products and improve the technology. CRM also provided patent-related services to ABD/PSI. Between 2001 and 2005, CRM provided ABD/PSI with constant verbal and email updates and frequent written reports on the status of ongoing projects. Yet, during the same time period, ABD/PSI failed to pay the full minimum distributions to CRM. ABD/PSI also failed to provide CRM with an accounting, thereby preventing CRM from determining if it was entitled to more than the minimum amounts. For the first minimum distribution due on March 31, 2003, ABD/PSI paid CRM only \$125,000 of the \$200,000 owed, and it made this payment almost a year late, on February 20, 2004. Of the \$300,000 ABD/PSI owed for calendar year 2003, it paid only \$100,000. For calendar years 2004 and 2005, ABD/PSI paid nothing at all.

The parties signed a Memorandum of Understanding ("MOU"), dated as of September 9, 2003. Officers of ABD/PSI represented to CRM's president, Cheryl R. Mitchell, Ph.D. ("Dr. Mitchell") that the purpose of the MOU was to enable ABD/PSI to allocate, for accounting purposes, a portion of the minimum distributions to technology they received from CRM. In particular, the MOU allocated \$532,784 of the minimum distributions to that technology. The MOU also provided that in the event of a termination of the Alliance Agreement, CRM would be entitled to a termination amount equal to no less than \$532,784 less any minimum distributions previously made to CRM. Although the MOU may be unenforceable for lack of consideration, it confirms that CRM transferred technology to ABD and received a 15% membership interest in ABD.

On February 10, 2005, CRM provided ABD/PSI and its patent attorneys three full drafts of patent applications (without the claims) for technologies CRM had developed since the Alliance Agreement. On February 22, 2005, CRM's inventors participated in a teleconference with ABD/PSI's patent attorneys to discuss the patent applications. Three days later, on February 25, ABD/PSI delivered to CRM a purported notice of termination of the Alliance Agreement (the "Notice of Termination"), asserting that CRM had failed to deliver the intellectual property required under the Agreement. The Notice of Termination purported to terminate both the Alliance Agreement and CRM's 15% interest in ABD, and it demanded that CRM pay for the costs of completing the patent application.

After sending the Notice of Termination, ABD/PSI's vice president and general counsel, Anne Hovis, informed CRM that ABD/PSI intended to complete the filing of the patent application after a scientific study, without using any further research and development of CRM. CRM asserts that this filing would be premature and could diminish the value of the patents. Despite the Notice of Termination, ABD also continues to refer to CRM's employees on its website and has refused to remove these references.

By letter dated March 4, 2005, CRM denied that it was in default of its obligations under the Alliance Agreement. Having tried, and failed, to persuade ABD/PSI of the merits of its position, CRM commenced this action against them. Notwithstanding ABD/PSI's breach, CRM has continued working on the patents so as to complete the analysis required.

B. CRM's Litigation in this Court and Attempts at Discovery

CRM filed its complaint against ABD/PSI on March 25, 2005. ABD/PSI answered and asserted three counterclaims on May 10, 2005. CRM replied on May 30. On June 1, 2005, ABD/PSI's Delaware attorneys filed an unopposed motion to substitute counsel, which this Court granted the same day. On October 25, 2005, CRM filed its first motion to compel. The Court granted this motion and ordered ABD/PSI to pay CRM \$250 in attorneys' fees. On December 12, CRM filed a renewed motion to compel and for attorneys' fees. The Court granted that motion as well and ordered ABD/PSI to pay CRM \$1500 in attorneys' fees. On December 22, Defendants' second Delaware counsel moved to withdraw, which this Court allowed on the condition that ABD/PSI obtain substitute counsel.

On January 26, 2006, CRM again moved for default judgment. In that motion, CRM argued that ABD/PSI repeatedly had failed to engage in discovery or abide by the Court's various discovery orders.

On February 16, 2006, ABD/PSI obtained new counsel, who represented to the Court that they would immediately provide any outstanding discovery. On that basis, the Court denied CRM's motion for default judgment, subject to Defendants providing by March 10 "an affidavit confirming that no documents had been withheld from production on the basis of any objection other than attorney-client privilege and/or work product." On March 10, rather than produce such an affidavit, ABD/PSI's new counsel moved to withdraw. CRM again moved for default judgment.

On March 21, 2006, the Court denied the latest motion for default judgment and ordered Defendants to submit an affidavit by March 31, with the help of counsel, detailing their attempts to comply with the outstanding discovery. On March 31, ABD/PSI submitted an inadequate affidavit prepared without the assistance of counsel. Consequently, Defendants' counsel renewed their motion to withdraw, which the Court granted on April 20, based on ABD/PSI's reportedly having obtained new in-state and out-of-state counsel on April 17.

On April 18, 2006, the Court entered a scheduling order, providing for a trial on the merits of this action beginning on August 28, 2006. On May 11, CRM again moved to compel and for sanctions because Defendants still had provided neither the required affidavit nor the requested discovery. In a teleconference on May 16, the Court ordered ABD/PSI to complete their document production and supplement their discovery by June 6. On June 6, counsel for ABD/PSI represented to CRM's counsel that his client "has determined that the responses are sufficient and will not be supplemented."¹ He further stated that ABD/PSI "has not located any additional documents to produce."²

On June 15, 2006, CRM's counsel objected to the adequacy of the ABD/PSI's representations.³ ABD/PSI's counsel did not respond to these objections; rather, they moved to withdraw on June 20. Both ABD/PSI's local and out-of-state counsel cited

¹ Ex. A to June 23, 2006 Letter from Philip Rovner to Court.

² *Id.*

³ Ex. B to June 23, 2006 Letter from Philip Rovner to Court.

their client's insistence upon taking action or not taking action with which counsel has a fundamental disagreement as a reason for their motions. Additionally, they asserted that the client had created a situation where it would be unreasonably difficult to continue the relationship based on, among other things, Ms. Hovis's making ethical complaints to the State Bar Association against ABD/PSI's counsel.

On June 27, the Court held a teleconference on the motions to withdraw. Although ABD and PSI are artificial entities, I allowed them to appear without counsel solely for the purpose of disputing the motions of their counsel to withdraw. After listening to both sides, I concluded that it would be unreasonably difficult for the attorneys to go forward with the representation of Defendants. Thus, pursuant to Delaware Rules of Professional Conduct 1.16(b)(4), (b)(6) and (b)(7), I granted ABD/PSI's local counsel's motion to withdraw. Because of the likelihood of material prejudice to CRM if both firms were permitted to withdraw, I denied Defendants' out-of-state counsel's motion to withdraw without prejudice. To keep the litigation on track, I also ordered Defendants to obtain acceptable replacement Delaware counsel by July 10, and both sides to submit status reports by that date.

On July 7, ABD/PSI's remaining out-of-state counsel advised the Court that they had not been successful in finding replacement Delaware counsel and renewed their motion to withdraw. On July 10, CRM filed its status report and requested leave to renew its motion for default judgment. The Court granted this request on July 11 and scheduled a hearing for July 27. By that date, ABD/PSI still had not obtained local counsel.

At the July 27 hearing, Defendants' out-of-state counsel explained the basis for the conflicts that had arisen with their client and that they had been unable to locate Delaware counsel. Again, I permitted Ms. Hovis to respond for Defendants solely for purposes of disputing the out-of-state counsel's motion to withdraw. Because Defendants had not obtained local counsel and their out-of-state counsel credibly represented that they had irreconcilable differences that made continuing representation unreasonably difficult, I concluded that the withdrawal of counsel was appropriate under Delaware Rules of Professional Conduct 1.16(a)(1), (b)(6) and (b)(7).⁴ Therefore, I granted Defendants' out-of-state counsel leave to withdraw.

C. Default Judgment Against ABD/PSI Granted

At the July 27 hearing, I also granted a limited default judgment against ABD/PSI.⁵ ABD/PSI's failure to obtain Delaware counsel, their inability to retain out-of-state counsel and their general obstruction of this litigation had created a situation that seriously prejudiced CRM's ability to prosecute its claims. Defendants, as artificial entities, had delayed the proceeding to such an extent that they could not comply with the

⁴ Although ABD/PSI's out-of-state counsel also moved to withdraw under Rules 1.16(b)(4) and (b)(5), I denied that aspect of their motion without prejudice. Consideration of those arguments would have required more development of the factual record.

⁵ Although the Court permitted Ms. Hovis to dispute the pending motion to withdraw, her submissions addressing the default judgment were rejected because Defendants, as artificial entities, cannot appear pro se. *See Parfi Holding AB v. Mirror Image Internet, Inc.*, 2006 WL 903578, at *2 n.4 (Del. Ch. Apr. 3, 2006); *Weber v. Kirchner*, 2003 WL 23190392, at *1 (Del. Ch. Dec. 31, 2003); *Transpolymer Indus., Inc. v. Chapel Main Corp.*, 582 A.2d 936, 1990 WL 168276, at *1 (Del. 1990) (Table).

existing scheduling orders even if the Court had granted them an extension to find their sixth or seventh counsel.

ABD/PSI's failure to meet the extended deadlines offered by the Court and their conscious disregard of various Court orders demonstrated an improper dilatory purpose. In pursuing these delay tactics, intentional or otherwise, Defendants prejudiced CRM's rights to pursue their claims in a timely fashion. Because CRM complied in good faith with the court's pretrial discovery procedures and repeatedly sought to expedite this litigation, they should not have been deprived of a prompt adjudication by litigants who disregarded the same rules.⁶ Thus, on July 27, I granted a limited default judgment in CRM's favor, finding that the allegations of the verified complaint would be deemed true, established and proven, and that CRM was not and is not in default of its obligations under the Alliance Agreement.⁷

With respect to the damages and other relief sought by CRM, I decided to conduct a further proceeding pursuant to Rule 55(b). The July 28, 2006 order directed the parties to meet and confer regarding a proposed scheduling order for the damages hearing and to submit an agreed form of scheduling order by August 28. Absent agreement, each party was to submit their own proposed order and a letter stating their position. In CRM's August 28 letter, their counsel advised the Court that they had not been able to meet and

⁶ See *Wahle v. Med. Ctr. of Del.*, 559 A.2d 1228, 1233 (Del. 1989).

⁷ I also awarded attorneys fees to CRM for its pursuit of their renewed motion for default judgment. At the October 27, 2006 hearing, I determined the amount of that award to be \$5000.

confer with Defendants because they had not retained new counsel. Ms. Hovis, in response to CRM's letter, advised the Court that she had not received a copy of the July 28 order memorializing the July 27 oral ruling. On September 1, 2006, the Court notified both CRM and ABD/PSI, through Ms. Hovis, that it would extend the deadline for submitting a proposed scheduling order until September 15, 2006 (the "September 1 Letter"). The Court also reminded the parties that Defendants had to submit any proposed scheduling order through counsel, and that the hearing could take place in the October time slot previously reserved for the trial on the merits of this matter.

On September 15, 2006, the Court received another letter from CRM's counsel, largely restating the argument in their August 28 letter. Neither ABD/PSI nor Ms. Hovis filed anything suggesting that either or both Defendants had retained counsel. Thus, based on the communications from CRM's counsel, the Court scheduled the damages hearing for October 27, 2006.

D. October 27, 2006 Damages Hearing

1. Notice of the hearing

The Court held the damages hearing as scheduled on October 27, 2006. Only CRM appeared. Pursuant to the Court's request at the hearing, CRM filed and served on Ms. Hovis a further submission on November 8, 2006 with additional support for its claim for relief and a proposed form of Order. On November 15, 2006, Ms. Hovis telephoned my chambers and left a message that she had never received notice of the October 27 hearing (the "Hovis Voice Mail"). The following day, the Court sent a letter to all parties notifying them about the Hovis Voice Mail (the "November 16 Letter"). In

the November 16 Letter, I reiterated that ABD and PSI, as artificial entities, had to communicate with the Court through counsel and directed them to file any formal objection based on a lack of notice of the damages hearing in accordance with Court of Chancery Rule 79.1 on or before December 1, 2006. The Court also required CRM to provide evidence that ABD and PSI were sent notice of the October 27 hearing by November 22, 2006. Since the November 16 Letter, neither ABD nor PSI has filed any formal objection or otherwise communicated with the Court regarding this litigation.

CRM did submit a letter on November 22, stating that it did not know whether ABD and PSI had actual notice of the October 27 hearing. CRM argues, however, that the Court's September 1 Letter provided at least constructive notice to ABD and PSI that the hearing would occur in October. Further, CRM noted that Phlo Corporation's most recent quarterly SEC Form 10-QSB stated in relevant part:

As Advanced Bio-Delivery, the operating entity involved in this litigation, has been dissolved by operation of the provisions of its operating agreement and is no longer conducting business, [Phlo Corporation] did not continue to dedicate additional financial resources to the defense of the claims and the prosecution of its counterclaims. Therefore, a decision was entered by a Delaware Court of Chancery in the fiscal quarter ended September 30, 2006, that the plaintiff's allegations are true. A decision has not yet been rendered with respect to the amount of damages, if any, suffered by the plaintiff or with respect to what relief, if any, may be awarded. Management believes that grounds for appeal currently exist which may be asserted once a final determination is made in the case.⁸

⁸ Ex. E to Nov. 22, 2006 Letter from Philip Rovner to Court (emphasis supplied by CRM).

This filing demonstrates that ABD deliberately abandoned its defense of this litigation and had no intention of participating in the damages hearing.

2. Evidence presented at the October 27 damages hearing

At the damages hearing, CRM's President, Dr. Cheryl Mitchell, testified as to the Alliance Agreement, the technology at issue, the events leading up to ABD/PSI's Notice of Termination, and the damages CRM incurred as a result of ABD/PSI's breach, as well as the costs CRM incurred performing its end of the Agreement.

Dr. Mitchell, who holds a Ph.D. in Chemistry, explained how she had met Ms. Hovis in 2000 and why her company decided to work with ABD/PSI to capture a different segment of the oral rehydration market. Dr. Mitchell explained how the Alliance Agreement called for CRM to dedicate ten days of lab time per month to ABD/PSI and described the intellectual property CRM was to provide to ABD. Because ABD/PSI led CRM to believe that they had a venture capitalist supporting them, CRM continued to provide the lab time despite not having received the minimum distributions required under the Alliance Agreement. CRM also paid \$62,685 in costs related to ingredients ABD/PSI ordered and had provided to CRM. In addition, CRM had begun to pay its manufacturers out of pocket in order to maintain those relationships and its reputation.

As to the ten days per month of lab time CRM contracted to provide to ABD/PSI, Dr. Mitchell explained that the lab operated roughly 21.5 days out of each month; thus, CRM alleged that it dedicated 46.5% of its lab's time to work for ABD/PSI under the Alliance Agreement. Based on CRM's 2002-2004 tax returns, later provided in redacted

form to the Court, the total operating costs of CRM during the period in question were \$4,084,669, and 46.5% of that amount is \$1,899,371. Adding in the \$62,685 it paid out of pocket for manufactured ingredients, CRM claimed that the total cost it incurred in connection with the Alliance Agreement was \$1,962,056. CRM also calculated the minimum distributions owed to it under the Alliance Agreement to be \$771,027.40, of which ABD/PSI had paid only \$225,000.⁹

3. Damages and relief requested

CRM seeks equitable rescission of the Alliance Agreement. Additionally, CRM seeks reimbursement for the product development and technological support services it provided to ABD/PSI under the terms of the Alliance Agreement. The amount CRM seeks is \$1,737,056, representing the sum of the \$1,899,371 in lab fees and the \$62,685 in manufacturing expenses paid out of pocket, less the \$225,000 already paid by ABD/PSI. CRM also requests post-judgment interest and its attorneys' fees.

In addition, CRM seeks a permanent injunction against ABD/PSI precluding them from filing any patent application related to technology developed by or received from CRM, utilizing or referring to any technology developed by CRM under the Alliance Agreement, utilizing or claiming any right or interest in any technology covered by any patent application or draft patent application provided by CRM to ABD/PSI and making

⁹ See Verified Compl. ¶¶ 36-38. The odd amount represents the prorated portion of \$300,000 attributable to work completed during the relevant part of the 2005 calendar year.

any reference to an ongoing business relationship with CRM, CRM's employees or Dr. Mitchell, including on any website controlled by ABD/PSI.

II. ANALYSIS

The Court conducted the hearing on October 27, 2006 pursuant to Court of Chancery Rule 55(b) to determine the appropriate relief for ABD/PSI's breach of contract.¹⁰ CRM primarily seeks rescission of the Alliance Agreement. In addition, it seeks monetary relief consistent with an order rescinding the Agreement, injunctive relief, attorneys' fees and post-judgment interest. I will address each of those requested forms of relief in that order.

A. Equitable Rescission

This Court has jurisdiction over claims for equitable rescission.¹¹ Equitable rescission, or cancellation, is a form of remedy that provides equitable relief beyond a judicial declaration of contract invalidity or award of money or property and seeks to restore the plaintiff to his original condition.¹² Typically, it requires the court to "cause

¹⁰ Rule 55(b) states in relevant part: "If, in order to enable the Court to enter judgment or to carry it into effect, it is necessary to take an account or to determine the amount of damages or to establish the truth of any averment by evidence or to make an investigation of any other matter, the Court may conduct such hearings or order such references as it deems necessary and proper."

¹¹ See *Williams v. White Oak Builders, Inc.*, 2006 WL 1668348, at *4 n.72 (Del. Ch. June 6, 2006); DONALD J. WOLFE, JR. & MICHAEL A. PITTINGER, **CORPORATE AND COMMERCIAL PRACTICE IN THE DELAWARE COURT OF CHANCERY**, § 12-4[a] at 12-52 (2005) ("[E]quitable relief may also be required, thus necessitating equitable rescission, where the unwinding of a transaction calls for the restoration of unique, specific property from one party to another.")

¹² *E.I. du Pont de Nemours & Co. v. HEM Research, Inc.*, 1989 WL 122053, at *3 (Del. Ch. Oct. 13, 1989).

an instrument, document, obligation or other matter affecting plaintiff's rights and/or liabilities to be set aside and annulled, thus restoring plaintiff to his original position and reestablishing title or recovering possession of property.”¹³ “An outright refusal of one party to a contract to perform the contract or its essentials constitutes such a repudiation as to entitle the other contracting party to treat the contract as rescinded, . . . and, as is generally held, an unjustified failure to perform basic terms of a contract warrants rescission rather than mere damages.”¹⁴ The party seeking rescission bears the burden of establishing that the court can restore the status quo between the parties.¹⁵

The Alliance Agreement contemplated payments to CRM from ABD/PSI for services rendered. The verified complaint demonstrates that the Alliance Agreement called for, among other things, minimum annual distributions to CRM. While CRM did receive partial payment toward these minimum distributions, the payments were delinquent and a substantial balance remains outstanding.¹⁶ Further, Defendants’ failure to provide the required accounting of their net profits during the years of the Alliance Agreement has prevented CRM from discovering whether they are entitled to more than

¹³ *Id.*

¹⁴ *Sheehan v. Hepburn*, 138 A.2d 810, 812 (Del. Ch. 1958).

¹⁵ *Obara v. Moseley*, 692 A.2d 414, 1997 WL 70652 (Del. 1997) (Table) (“The court must substantially restore the prior position of all parties in its grant of rescissory relief.”).

¹⁶ Verified Compl. ¶¶ 35-38.

the minimum distribution.¹⁷ ABD/PSI offered no excuse for their delay or failure to pay the full minimum distributions to CRM. ABD/PSI's refusal to perform an essential obligation under the Alliance Agreement (minimum payment) constitutes the requisite repudiation required for CRM to treat the contract as rescinded. Their failure to pay the minimum distributions is also a material breach of the Alliance Agreement.

Equitable rescission is justified here, particularly since the services and other obligations owed by each party under the Alliance Agreement are not so complex that it would be "impossible to 'unscramble the eggs.'"¹⁸ Unlike a complex transaction with numerous parties involved, the only parties to the Alliance Agreement are CRM and ABD/PSI. Rescission would result in the Alliance Agreement being annulled and regarded as void *ab initio*. Restoring the parties to the positions they had before the Alliance Agreement would require, among other things, that the technology CRM provided to ABD/PSI be returned to it and that CRM return to ABD/PSI the 15% interest in ABD that it received as consideration under the Alliance Agreement.

The evidence that ABD/PSI planned to move forward with patent applications that could cause additional damage to CRM's own intellectual property provides further

¹⁷ For example, the Alliance Agreement made CRM a signatory to ABD's LLC Agreement. Pl.'s Ex. 3 (Verified Compl. Ex. A, Alliance Agreement, § 7.1(b), p. 7). Under Article IV of the ABD LLC Agreement, all members of ABD were entitled to access to the company's books and records. Pl.'s Ex. 3 (Verified Compl. Ex. B, ABD LLC Agreement, Art. IV). Because the Alliance Agreement entitled CRM to the greater of 3% of ABD's operating profit or the minimum distributions, CRM's request for books and records clearly was reasonable.

¹⁸ *Gimbel v. Signal Cos.*, 316 A.2d 599, 603 (Del. Ch. 1974).

grounds for equitable rescission of the contract. CRM provided to ABD/PSI's patent attorneys three full drafts of patent applications related to technology developed by CRM for the Alliance Agreement.¹⁹ CRM's February 22, 2005 teleconference with ABD/PSI's patent attorneys demonstrates that ABD/PSI was familiar with the technology CRM had provided. ABD/PSI's February 25, 2005 Notice of Termination shows a desire on their part to convert CRM's property for their own use. Through this litigation, CRM has proven that the Notice of Termination was wrongful. Therefore, the Court will order that the technology CRM owned and provided or assigned to Defendants under the Alliance Agreement be returned to CRM's title and possession as if it never left.

Equitable rescission also requires putting each party in as close to the position they would have been in but for the creation of the contract.²⁰ On these facts, this would require reimbursement of the expenses CRM incurred during the Alliance Agreement. CRM has provided evidence of its lab expenses and its out-of-pocket manufacturing expenses. Because the contract calls for CRM to devote ten days of each working month to projects related to the Alliance Agreement, CRM argues that 46.5% of its lab resources

¹⁹ Verified Compl. ¶ 28.

²⁰ See *Dick v. Reves*, 206 A.2d 671, 676 (Del. 1965) (allowing reimbursement of incidental expenses in a rescission for a real property contract that otherwise would not have been expended because the court will do "whatever is necessary to restore the parties to their original situation as nearly as possible"). See also *Obara*, 1997 WL 70652, at *1 ("The court must substantially restore the prior position of all parties in its grant of rescissionary relief.").

were devoted to ABD/PSI and should be reimbursed.²¹ Using the 46.5% figure, CRM argues that it is entitled to \$1,962,056 less the \$225,000 paid by ABD/PSI for a total amount of \$1,737,056.

Having reviewed the evidence and argument submitted by CRM in support of its claim for more than \$1.7 million in expenses, I find the evidence insufficient to support that amount. In particular, I am not persuaded that it is reasonable to assume that 46.5% of all CRM's expense during the relevant period can be attributed to the Alliance Agreement. Instead, I find the summaries of the time recorded on CRM's official timesheets for "Phlo" related projects and attested to by Terra Briel²² to be more reliable. Thus, to put CRM back in approximately the position it would have been in had the Alliance Agreement never been formed requires closer examination of those time sheets in relation to the expenses CRM incurred during the relevant period, as evidenced by its income tax returns.²³

CRM admits that the time sheets summaries it introduced as Exhibit 7 at the damages hearing were prepared after this litigation began. While the summaries reflect "the time recorded on CRM official timesheets for 'Phlo' related projects," the entries for Dr. Mitchell's time from June 2004 through February 2005 are admittedly only estimates

²¹ Dr. Mitchell testified that she arrived at the 46.5% number by estimating the number of working days available in a given month (21.5) and dividing it into the 10 days devoted to ABD/PSI projects.

²² Pl.'s Ex. 7.

²³ See Ex. A to CRM's Post-Default J. Submission.

because corporate changes no longer required Dr. Mitchell to keep track of her time for individual projects during that period. Dr. Mitchell's estimated time in February 2005 is higher than in the other recorded months, but as she explained at the hearing, this resulted from her involvement in preparing the patent applications at that time. Otherwise, her estimate of time from July 2004 until December 2004 is below her average hours devoted to ABD/PSI before the estimated period. Accordingly, I find that the estimates of Dr. Mitchell's time are reasonable and that the time sheet summaries accurately reflect the time CRM's employees devoted to ABD/PSI projects.²⁴

Determining the resources expended on ABD/PSI-related work also requires examination of the CRM Income Tax Return Summary of Operating Costs ("Summary of Operating Costs").²⁵ The first time period shown in the Summary of Operating Costs runs from July 1, 2002 until June 30, 2003. According to the summary of time sheets from August 2002 through December 2002, approximately eight CRM employees²⁶ devoted a total of 1828.75 hours to ABD/PSI projects, or an average of 365.75 hours per month for that period. The equivalent of one month of work by a full time CRM

²⁴ In this regard, I do not find that Ms. Briel's comment that she understood "from direct conversations with employees of Creative Research Management that additional time was spent on "Phlo" projects but not specifically recorded on the official company time sheets," justifies any increase of the number of hours expended.

²⁵ CRM's Post-Default J. Submission, Ex. A.

²⁶ Because it appears that a ninth CRM employee only worked on ABD/PSI projects in August 2002, I find it more reasonable to calculate the average time spent by CRM from August through December 2002 using eight employees.

employee would be 8 hours/day times 21.5 working days/month or 172 hours. Using this measure, the 1828.75 hours spent by the CRM employees from August through December 2002 would equate to 26.6% of the time spent by those lab employees being devoted to ABD/PSI.²⁷ According to the summary of time sheets from January 2003 through June 2003, eight CRM employees devoted a total of 1248.75 hours to ABD/PSI, or 208.13 hours per each of the first six months of 2003. I infer from this that 15.13% of CRM's lab time from January through June 2003 was devoted to ABD/PSI. Over the eleven month period, then, 3,077.50 hours of CRM lab time involved work related to the Alliance Agreement, or 279.77 hours per month. Thus, assuming the full amount of time worked by CRM would be represented by eight employees working 172 hours/month, 20.33% of CRM's lab time was devoted to ABD/PSI in its 2003 fiscal year from July 1, 2002 to June 30, 2003. In this same period, CRM's operating expenses totaled \$813,331. Therefore, I find that the ABD/PSI portion of the operating expenses from July 1, 2002 until June 30, 2003 is 20.33% of this total, or \$165,369.06.

The second time period in question runs from July 1, 2003 until December 31, 2003. The time sheets indicate that the eight CRM employees devoted a total of 959.25 hours to ABD/PSI in this period, or 159.88 hours per month. If CRM had only eight employees during this period and they worked an average of 172 hours/month, then CRM devoted 11.62% of its lab time from July 2003 until December 2003 to ABD/PSI.

²⁷ This number was calculated by dividing the hours/month (365.75) by 1376 (the hours available per month (172) multiplied by the number of employees working (8)).

According to the Summary of Operating Costs for this same period, CRM's operating expenses totaled \$493,393. Thus, I find the ABD/PSI portion of the operating expenses from July 1 until December 31, 2003 to be 11.62% of this total, or \$57,326.46.

The final time period runs from January 9, 2004 until December 31, 2004. The time sheet summaries indicate that eight CRM employees worked 1120 hours on ABD/PSI projects during this period, or 93.33 hours per month. Using the same assumptions as before, I find that 6.78% of CRM's lab time in 2004 was devoted to ABD/PSI. CRM's Summary of Operating Costs for this same period indicates that its operating expenses totaled \$2,777,945. Therefore, I find the ABD/PSI portion of the operating expenses for 2004 to be 6.78% of this total, or \$188,426.50.

Adding these adjusted numbers for the three years in question, the total amount of CRM operating expenses attributable to ABD/PSI is \$411,122.02. In addition, CRM also is entitled to recover \$62,685.62 for out-of-pocket expenses it incurred on ABD/PSI's behalf. Those expenses include the amount of money CRM spent, with the understanding that it would be fully reimbursed, for manufactured ingredients and freight for ingredients supplied to Defendants in response to a purchase order that they provided to CRM, as well as the costs of providing marketing samples to Defendants and warehousing costs incurred by CRM on Defendants' behalf.²⁸ Thus, the total amount CRM spent, according to these calculations, was at least \$473,807.02.

²⁸ See Pl.'s Ex. 3, ¶ 39; Ex. 4, p. 58; Ex. 6.

At the damages hearing, CRM sought either reimbursement for the costs it incurred for laboratory services to ABD and out-of-pocket ingredient manufacturing and freight expense less the \$225,000 ABD/PSI paid to CRM toward the required minimum distribution payments or, alternatively, the minimum distribution amount still outstanding, which it claimed to be \$546,027. The former figure is more in the nature of rescissionary damages, while the latter seems to reflect a possible measure of damages for breach of contract. Because CRM seeks several forms of relief based on a rescission theory, I conclude that a rescissionary damages approach is more appropriate in the circumstances of this case.

The Court of Chancery has broad discretion to fashion rescissory relief consistent with the equities of the situation and the conduct of the parties.²⁹ The objective is to substantially restore the parties to the position they would have occupied before the Alliance Agreement and to reestablish title and possession of property in the appropriate party.³⁰ In the circumstances of this case, the extensive nonmonetary relief being granted to CRM leads the Court to conclude that it would not be appropriate to use a breach of contract measure of damages, such as ordering payment to CRM of the unpaid balance of the minimum distribution payments. Instead, the Court will award rescissory damages in

²⁹ See *Liberis v. Europe Cruises Corp.*, 702 A.2d 926, 1997 WL 725634 (Del. 1997) (Table) (affirming award of rescissory damages and partial restoration of status quo ante).

³⁰ See *E.I. du Pont de Nemours & Co. v. HEM Research, Inc.*, 1989 WL 122053, at *3 (Del. Ch. Oct. 13, 1989); *Obara v. Mosely*, 692 A.2d 414, 1997 WL 70652, at *1 (Del. 1997) (Table).

the amount of the operating costs and out-of-pocket expenses CRM incurred, \$473,807.02, minus the \$225,000 paid to CRM by ABD/PSI under the Alliance Agreement, which equals \$248,807.02.

In summary, with regard to the equitable rescission CRM requests, the Court will rescind the Alliance Agreement, order all technology and intellectual property CRM provided to ABD/PSI returned to CRM's title and possession and award monetary relief in the amount of \$248,807.02.

B. Injunctive Relief

CRM seeks a permanent injunction against ABD/PSI prohibiting them from (a) filing any patent application relating to any technology developed by or received from CRM; (b) utilizing or referring to any technology developed by CRM under the Alliance Agreement; (c) utilizing or claiming any right or interest in any technology covered by any patent application or draft patent application provided by CRM to Defendants; and (d) making any reference regarding an ongoing business relationship with CRM, CRM's employees, or Dr. Mitchell, including on any website controlled by Defendants.³¹

"To obtain a permanent injunction the moving party must demonstrate that: (1) it has proven actual success on the merits of its claims; (2) irreparable harm will be suffered if injunctive relief is not granted; and (3) the harm that will result if an injunction is not entered outweighs the harm that will befall the defendant if an injunction is granted."³²

³¹ CRM's Post-Default J. Submission ¶ 9.

³² *W.L. Gore & Assocs., Inc. v. Wu*, 2006 WL 2692584, at *10 (Del. Ch. Sept. 15, 2006), *aff'd*, 2007 WL 148690 (Del. Jan. 22, 2007).

By virtue of the default judgment, CRM has succeeded on the merits of its claims. Further, Dr. Mitchell's trial testimony showed that CRM's patents and its relationship with other clients have been adversely affected by ABD/PSI's actions with regard to the Alliance Agreement. The record also demonstrates that ABD/PSI's continued use of the technology and the draft patent applications provided to them by CRM would result in irreparable harm to CRM. This harm outweighs any harm that will befall ABD/PSI if the Court grants the requested injunction, particularly since Phlo Corporation's recently filed SEC Form 10-QSB indicates that its operating affiliate ABD has been dissolved. Thus, the Court will grant CRM's request for a permanent injunction subject to one modification. Paragraph 5(b) of CRM's proposed Final Judgment and Order would permanently enjoin Defendants from "utilizing or referring to any technology developed by CRM under the Alliance Agreement." The phrase "or referring to" in that clause is vague and ambiguous, and the prohibition of such conduct has not been justified in this proceeding. Accordingly, the Court will strike that phrase from the Final Judgment and Order, as entered.

C. Attorneys' Fees

CRM seeks attorneys' fees and expenses related to this matter exclusive of those amounts CRM previously requested in connection with this Court's previous awards of limited fees on three prior occasions.³³ It is a well-recognized exception to the American Rule that a prevailing party may obtain an award of attorneys' fees if it demonstrates that

³³ CRM's Post-Default J. Submission ¶ 10 n.3 and Ex. B (Rovner Aff.) ¶¶ 1-2.

the losing party engaged in bad faith conduct that increased the costs of the litigation or egregious pre-litigation conduct.³⁴ As previously described, ABD/PSI's conduct before and during this litigation has been egregious and meets the level of bad faith that justifies an award of attorneys' fees. In addition to Defendants prejudicing CRM's rights to pursue their claims in a timely fashion, they have openly defied orders of this Court designed to keep this litigation moving forward. ABD/PSI's behavior also has forced several of their different attorneys to withdraw. As to the amount of fees, the Court credits the Rovner Affidavit and grants, as reasonable, CRM's request for \$121,632.00 in attorneys' fees and \$13,129.85 in costs in connection with the prosecution of this action through July 28, 2006.³⁵

D. Post-Judgment Interest

CRM is entitled to post-judgment interest from the date judgment is entered to the date of payment pursuant to 6 Del. C. § 2301(a). The applicable post-judgment interest rate is 11.25% (the Federal Reserve discount rate of 6.25% plus 5%).

III. CONCLUSION

For the reasons stated herein and in support of the Court's July 28, 2006 Default Judgment and Order, the Court will grant and enter CRM's proposed Final Judgment and

³⁴ *Arbitrium (Cayman Is.) Handels AG v. Johnston*, 705 A.2d 225, 231 (Del. Ch. 1997), aff'd, 720 A.2d 562 (Del. 1998).

³⁵ Rovner Aff. ¶¶ 1-2, attached as Ex. B to CRM's Post-Default J. Submission. CRM does not seek reimbursement of the fees and expenses it incurred in connection with its request for equitable and injunctive relief and an award of monetary damages. *Id.*

Order subject to the amendment of paragraph 5(b) described above and the substitution of a new paragraph 7 on rescissory damages consistent with this memorandum opinion.



GRANTED WITH MODIFICATIONS

EXHIBIT C

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

CREATIVE RESEARCH MANUFACTURING,)	
)	
Plaintiff,)	C.A. No. 1211-N
)	
v.)	
)	
ADVANCED BIO-DELIVERY LLC and)	
PHLO SYSTEM, INC.,)	
)	
Defendants.)	

FINAL JUDGMENT AND ORDER

WHEREAS, by Order dated July 28, 2006, this Court granted, in part, plaintiff Creative Research Manufacturing's ("CRM") Renewed Motion for Default Judgment against Defendants Advanced Bio-Delivery LLC and Phlo System, Inc. ("Defendants"); and

WHEREAS, pursuant to the July 28, 2006 Order, the allegations of plaintiff's Verified Complaint were deemed true, established and proven and a declaration was issued stating that CRM was not and is not in default of its obligations under an Alliance and Services Agreement, dated as of November 15, 2001, entered into between plaintiff and Defendants and attached as Exhibit A to the Verified Complaint (the "Alliance Agreement"); and

WHEREAS, pursuant to Court of Chancery Rule 55(b), this Court ordered that further proceedings be held to "take up the remaining aspects of the proposed default judgment" including CRM's "entitlement to damages and any other relief that it seeks." See July 27, 2006 Tr. at 34-35. In addition, at that hearing, CRM was given leave to address its right to pre and post-judgment interest. *Id.* at 33-34; and

WHEREAS, on October 27, 2006, the Court conducted further proceedings (the "Rule 55 hearing"); and

WHEREAS, at the Rule 55 hearing the Court heard the testimony of Dr. Cheryl Mitchell, and accepted into evidence CRM Damages Exhibits (Nos. 1-7); and

WHEREAS, at the conclusion of the Rule 55 hearing, the Court requested additional legal support regarding the relief CRM seeks and a form of order; and

WHEREAS, having considered CRM's November 8, 2006 submission, now therefore,

IT IS HEREBY ORDERED that,

1. The Alliance Agreement is hereby rescinded, rendering the Alliance Agreement void *ab initio*.

2. Due to Defendants' breaches of the Alliance Agreement, and this Court's rescission of the Alliance Agreement, the following technology originally owned by CRM and provided and/or assigned by CRM or its employees in consideration of the Alliance Agreement ("CRM Provided Technology") is returned to CRM's title and possession as if it never left:

Tapioca-based oral rehydration solutions containing salt liposomes; Tapioca-based oral rehydration solutions containing salt liposomes and their use for sweat replacement, treatment of diarrhea, and rehydration; Method of manufacturing same; Method of manufacturing salt liposomes and their inclusion in oral rehydration solutions; Tapioca-based oral rehydration beverages containing salt liposomes having Sodium at 20mmol./liter (ORS20) for sweat replacement and sodium at 75mmol./liter (ORS75) for treatment of diarrhea; both liquid and powder formulations of same; Tapioca-based high complex carbohydrate oral rehydration solutions with liposomal salts; Salt encapsulated in either phosphatidylcholine ("PC") liposomes or polyenolphosphatidyl choline ("PPC") liposomes and method of manufacture;

A pyridine free phosphate ester of Vitamin E ("VEP") and compositions related thereto; Sublingual sprays containing a pyridine free VEP/PC or VEP/PPC; Sublingual spray formulations containing a pyridine free VEP/PC or VEP/PPC; Commercially sterile VEP/PC or VEP/PPC liposomes; Solvent-free manufacture of VEP;

Caffeine encapsulated in phosphatidylcholine liposomes or polyenolphosphatidylcholine liposomes; Method of manufacture of caffeine/PC and Caffeine/PPC; Sublingual sprays containing liposomed caffeine; Beverages containing liposomed caffeine; Formulations of Sublinqual sprays and beverages containing caffeine or caffeine liposomes;

Commercially sterile liposomes and their method of manufacture; Food grade liposomes processing;

Modified pectin product liposomes – use in cancer treatment;

Inulin liposomes for use in diabetes treatment.

See CRM Damages Ex. 3 (¶¶ 25, 26, 29); Ex. 4 (Response Nos. 9, 21); Ex. 5.

3. The assignment by Inventors of Patent to Defendants for the ORS Liposomal patent, Patent Application No. 10/614,940 (200050008685) (the "Patent Application"), is rescinded and of no force or effect, and that neither Defendants nor any of their affiliates have any rights or interest in or with respect to the intellectual property covered by such patent or patent application. It is further declared that, as between the parties, any rights or interests with respect to the Patent Application and the underlying technology belong to CRM.

4. The Express Abandonment as filed by the Defendants and/or their employees and assigns on February 6, 2006 with respect to the Patent Application is deemed invalid *ab initio* as between the parties to this case.

5. Defendants are also hereby permanently and forever enjoined and prohibited from
(a) filing any patent application relating to any technology developed by or received from CRM;
(b) utilizing or referring to any technology developed by CRM under the Alliance Agreement;
(c) utilizing or claiming any right or interest in any technology covered by any patent application or draft patent application provided by CRM to Defendants; and (d) making any reference

regarding an on-going business relationship with CRM, CRM's employees, or Dr. Cheryl R. Mitchell, including on any website controlled by Defendants.

6. CRM's 15% membership in ABD is returned to ABD.
7. Defendants, separately and collectively, breached their obligations under the Alliance Agreement entitling plaintiff CRM to damages in the amount of **\$1,737,056.00**. That amount is the result of the following calculation: (1) **\$1,899,371** (the cost of laboratory services CRM provided based on overhead expenses provided in 2002-2004 (*see* Ex. A to CRM's November 8, 2006 submission; CRM Damages Ex. 3 (¶¶ 22-24, 27-28); Ex. 4 (Response Nos. 7, 8, 12, 17, 21); Ex. 7); (2) **\$62,685** (the actual costs and expenses CRM incurred with respect to the provision of ingredient product to, on behalf of, or for the benefit of, Defendants) (*see* CRM Damages Ex. 3 (¶ 39); Ex. 4 (Response No. 20); Ex. 6), less **\$225,000**, the amount of the Minimum Distribution actually paid.
8. Defendants' counterclaims are dismissed with prejudice.
9. CRM is entitled to an award of damages to be paid by Defendants reflecting the amount of attorneys' fees and expenses it incurred to pursue this action in the amount of **\$134,761.85**.
10. CRM is entitled to an award of post-judgment interest from the date judgment is entered to the date of payment pursuant to 6 Del. C. § 2301(a); the applicable post-judgment interest rate is 11.25% (the Federal Reserve discount rate of 6.25%, plus 5%).
11. Plaintiff is entitled to such other or further relief as the Court deems just and appropriate.

Vice Chancellor

Dated: _____

Court: DE Court of Chancery

Judge: Parsons, Donald F

File & Serve reviewed Transaction ID: 12865286

Current date: 1/30/2007

Case number: 1211-N

Case name: PARTIAL CONF ORDER FOR AFFIDAVITS Creative Research Manufacturing vs Advanced Bio Delivery LLC

For the reasons stated in the Memorandum Opinion issued today, the foregoing Final Judgment and Order is hereby GRANTED subject to the following modifications:

1. In para. 5(b) delete "or referring to";

2. Para. 7 is hereby stricken entirely and replaced with the following:

7. Defendants, separately and collectively, breached their obligations under the Alliance Agreement entitling plaintiff CRM to rescissory damages in the amount of \$248,807.02. That amount is the result of the following calculation: (1) 411,102.02 (the cost of laboratory services CRM provided based on overhead expenses provided in 2002-2004) (see Ex. A to CRM's Nov. 8, 2006 submission; CRM Ex. 3 (paras. 22-24, 27-28); Ex. 4 (Resp. Nos. 7, 8, 12, 17, 21); Ex. 7); (2) \$62,685 (the actual costs and expenses CRM incurred for the providing ingredient product to, on behalf of, or for the benefit of, Defendants) (see CRM Dam. Exs. 3, 4, 6; less \$225,000, the minimum distribution paid.

/s/ Judge Donald F Parsons Jr



AFFIDAVIT IN SUPPORT OF REVIVAL OF APPLICATION

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: Mitchell et al. Docket No.: 590-004
Serial No.: 10/614,940 Group Art Unit: 1618
Filed 7/7/2003 Examiner: Young, Micah P.
For: Oral Rehydration Compositions Containing Liposomes

Commissioner of Patents and Trademarks
PO Box 1450
Alexandria, VA 22313-1450

AFFIDAVIT OF CHERYL R. MITCHELL

Dear Sir:

I, Cheryl R. Mitchell, being duly sworn, deposes and says:

1. I am the President of Creative Research Manufacturing, ("CRM"), co-inventor and applicant in the U.S. Patent Application No. 10/614,940 filed July 7, 2003 ("Application"). I hold a Ph.D. in Chemistry from Texas A&M University. I perform research and develop products for the food industry.
2. In 2001, CRM began working with Phlo System, Inc. ("PSI") and Advanced Bio-Delivery LLC ("ABD"). ABD/PSI wanted me and the staff at CRM to research various potential food ingredients so that ABD/PSI could license and manufacture the resulting compounds.
3. In August 2002, CRM signed an Alliance and Services Agreement ("Alliance Agreement"), effective November 15, 2001, with ABD/PSI to memorialized our working relationship.

4. In 2003, I along with James Mitchell completed the development of a composition that provided improved oral rehydration. ABD/PSI sought rights to manufacture and sell the compound.

5. On July 7, 2003, Kristofer E. Halvorson was appointed as my attorney of record to file and prosecute the Application covering the rehydration compound.

6. Pursuant to the Alliance Agreement, I assigned the Application to PSI on February 11, 2004. CRM agreed to perform R&D and deliver additional intellectual property to ABD/PSI. ABD/PSI agreed to pay the greater of 3% of ABD's operating profit or yearly "minimum distributions" of \$200,000 in 2002 and \$300,000 thereafter. ABD/PSI represented to CRM that ABD/PSI had venture capital funding.

7. On September 9, 2003, ABD/PSI offered for acceptance by CRM a Memorandum of Understanding ("MOU") in which ABD/PSI agreed that CRM would be entitled to \$532,784 less any minimum distributions paid if the Alliance Agreement were terminated. Although I was concerned that ABD/PSI had paid CRM only \$125,000 in 2002 and \$100,000 in 2003, the MOU and renewed assurances that ABD/PSI had venture capital backing allayed my fears. CRM continued to perform on the contract.

8. On February 11, 2004, I executed an assignment agreement for the rehydration compound application pursuant to the Alliance Agreement.

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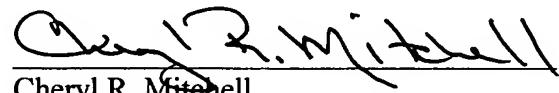
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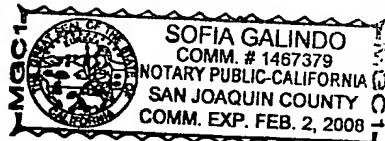
23. On April 26, 2006, promptly upon discovery of the abandonment filed by Mr. Hovis, I requested Mr. Halvorson to file on my behalf a petition to the Director of the USPTO requesting that the Application be revived on grounds that the abandonment was wrongful, prejudicial to the true owners, and that ABD/PSI had violated its duty of candor with the Office. The petition was denied. The Attorney denying the petition took the position that, *inter alia*, Mr. Halvorson was not the attorney of record and had not made the proper showing of unavoidable delay.
24. On July 27, 2006, the Court granted CRM a limited default judgment.
25. On October 27, 2006, the Court held a hearing to determine damages to CRM.
26. On January 30, 2007, the Court issued its Memorandum Opinion and Final Judgment and Order which included restoration of title of the property (which includes the Application), a ruling that the Alliance Agreement was annulled and regarded as void *ab initio*, the technology CRM provided to ABD/PSI returned to CRM, and the return to CRM's title and possession as if it never left.
27. As the adjudicated owner of the Application, I aver that its abandonment was entirely unintentional and unavoidable on my part. In spite of my efforts, I was not able to take action to avoid abandonment. I further aver that the express abandonment filed by Mr. Hovis was for malicious purposes to frustrate the execution of justice by the Court of Chancery. And obtain pirated rights?
28. The abandonment of the present application was without fraud or deceit on my part.
29. Pursuant to the terms of 28 U.S.C. §1746, I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. I further declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true.

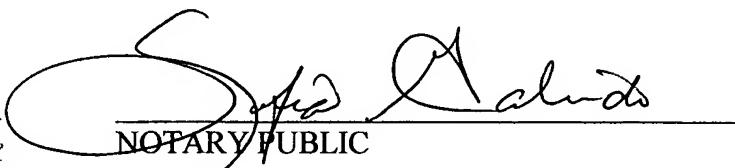
The declarations made herein are made with the knowledge that willful false statements and the like are punishable by fine, imprisonment, or both under 18 U.S.C. §1001 and may jeopardize the validity of the present patent.


Cheryl R. Mitchell

State of California)
)
) SS
County of San Joaquin)

On this 9 day of March, 2008⁷⁵⁴, before me personally came the above named Cheryl R. Mitchell who is personally known by me or proved to me on the basis of satisfactory evidence to be the same individual who executed the foregoing instrument, and who acknowledged to me that he/she executed the same of his/her own free will for the use and purposes therein set forth.




NOTARY PUBLIC

My Commission Expires: Feb 2, 2008



AFFIDAVIT IN SUPPORT OF REVIVAL OF APPLICATION
IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: Mitchell et al. Docket No.: 590-004
Serial No.: 10/614,940 Group Art Unit: 1618
Filed 7/7/2003 Examiner: Young, Micah P.
For: Oral Rehydration Compositions Containing Liposomes

Commissioner of Patents and Trademarks
PO Box 1450
Alexandria, VA 22313-1450

AFFIDAVIT OF JAMES B. MITCHELL

Dear Sir:

I, James B. Mitchell, being duly sworn, deposes and says:

1. I am the Vice President of Manufacturing at Creative Research Manufacturing, Inc. ("CRM"), co-inventor, and applicant in the U.S. Patent Application No. 10/614,940 filed July 7, 2003 ("Application"). I perform research and develop products for the food industry.
2. In 2001, CRM began working with Phlo System, Inc. ("PSI") and Advanced Bio-Delivery LLC ("ABD"). ABD/PSI wanted me and the staff at CRM to research various potential food ingredients so that ABD/PSI could license and manufacture the resulting compounds.
3. In August 2002, CRM signed an Alliance and Services Agreement ("Alliance Agreement"), effective November 15, 2001, with ABD/PSI to memorialized our working relationship.

4. In 2003, I along with Cheryl Mitchell completed the development of a composition that provided improved oral rehydration. ABD/PSI sought rights to manufacture and sell the compound.

5. On July 7, 2003, Kristofer E. Halvorson was appointed as my attorney of record to file and prosecute the Application covering the rehydration compound.

6. Pursuant to the Alliance Agreement, I assigned the Application to PSI on February 11, 2004. CRM agreed to perform R&D and deliver additional intellectual property to ABD/PSI. ABD/PSI agreed to pay the greater of 3% of ABD's operating profit or yearly "minimum distributions" of \$200,000 in 2002 and \$300,000 thereafter. ABD/PSI represented to CRM that ABD/PSI had venture capital funding.

7. On September 9, 2003, ABD/PSI offered for acceptance by CRM a Memorandum of Understanding ("MOU") in which ABD/PSI agreed that CRM would be entitled to \$532,784 less any minimum distributions paid if the Alliance Agreement were terminated. Although I was concerned that ABD/PSI had paid CRM only \$125,000 in 2002 and \$100,000 in 2003, the MOU and renewed assurances that ABD/PSI had venture capital backing allayed my fears. CRM continued to perform on the contract.

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The declarations made herein are made with the knowledge that willful false statements and the like are punishable by fine, imprisonment, or both under 18 U.S.C. §1001 and may jeopardize the validity of the present patent.


James B. Mitchell

State of California)
)
) SS
County of San Joaquin)

On this 9 day of March, 2006⁷_{SA}, before me personally came the above named James B. Mitchell who is personally known by me or proved to me on the basis of satisfactory evidence to be the same individual who executed the foregoing instrument, and who acknowledged to me that he/she executed the same of his/her own free will for the use and purposes therein set forth.




Sofia Galindo
NOTARY PUBLIC

My Commission Expires: Feb 2, 2008



PTO/SB/61 (09-06)

Approved for use through 03/31/2007. OMB 0651-0031
U.S. Patent and Trademark Office; U.S. DEPARTMENT OF COMMERCE

Under the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number.

Docket Number (Optional)

590-004

**PETITION FOR REVIVAL OF AN APPLICATION FOR PATENT
ABANDONED UNAVOIDABLY UNDER 37 CFR 1.137(a)**

First Named Inventor: Mitchell et al.

Art Unit: 1618

Application Number: 10/614,940

Examiner: Young, Micah P.

Filed: 07/07/2003

Title: Oral Rehydration Compositions Containing Liposomes

Attention: Office of Petitions
Mail Stop Petition
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

NOTE: If information or assistance is needed in completing this form, please contact
Petitions Information at (571) 272-3282.

The above-identified application became abandoned for failure to file a timely and proper reply to a notice or action by the United States Patent and Trademark Office. The date of abandonment is the day after the expiration date of the period set for reply in the Office notice or action plus any extensions of time actually obtained.

APPLICANT HEREBY PETITIONS FOR REVIVAL OF THIS APPLICATION.

NOTE: A grantable petition requires the following items:

- (1) Petition fee.
- (2) Reply and/or issue fee.
- (3) Terminal disclaimer with disclaimer fee-required for all utility and plant applications filed before June 8, 1995, and for all design applications; and
- (4) Adequate showing of the cause of unavoidable delay.

1. Petition fee

- Small entity – fee \$ 250.00 (37 CFR 1.17(l)). Applicant claims small entity status.
See 37 CFR 1.27.
- Other than small entity – fee \$ _____ (37 CFR 1.17(l)).

2. Reply and/or fee

- A The reply and/or fee to the above-noted Office action in the form of
No reply or issue fee is outstanding (identify the type of reply):

- has been filed previously on _____.
- is enclosed herewith. | 03/19/2007 HGUTEMA1 00000013 10614940

- B The issue fee of \$ _____ 02 FC:2452 250.00 0P

- has been filed previously on _____.
- is enclosed herewith.

[Page 1 of 3]

This collection of information is required by 37 CFR 1.137(a). The information is required to obtain or retain a benefit by the public which is to file (and by the USPTO to process) an application. Confidentiality is governed by 35 U.S.C. 122 and 37 CFR 1.11 and 1.14. This collection is estimated to take 8 hours to complete, including gathering, preparing, and submitting the completed application form to the USPTO. Time will vary depending upon the individual case. Any comments on the amount of time you require to complete this form and/or suggestions for reducing this burden, should be sent to the Chief Information Officer, U.S. Patent and Trademark Office, U.S. Department of Commerce, P.O. Box 1450, Alexandria, VA 22313-1450. DO NOT SEND FEES OR COMPLETED FORMS TO THIS ADDRESS. SEND TO: Mail Stop Petition, Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450.

If you need assistance in completing the form, call 1-800-PTO-9199 and select option 2.

Under the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number.

**PETITION FOR REVIVAL OF AN APPLICATION FOR PATENT ABANDONED
UNAVOIDABLY UNDER 37 CFR 1.137(a)**

3. Terminal disclaimer with disclaimer fee

- Since this utility/plant application was filed on or after June 8, 1995, no terminal disclaimer is required.
- A terminal disclaimer (and disclaimer fee (37 CFR 1.20(d)) of \$ _____ for a small entity or \$ _____ for other than a small entity) disclaiming the required period of time is enclosed herewith (see PTO/SB/63).

4. An adequate showing of the cause of the delay, and that the entire delay in filing the required reply from the due date for the reply until the filing of a grantable petition under 37 CFR 1.137(a) was unavoidable, is enclosed.

WARNING:

Petitioner/applicant is cautioned to avoid submitting personal information in documents filed in a patent application that may contribute to identity theft. Personal information such as social security numbers, bank account numbers, or credit card numbers (other than a check or credit card authorization form PTO-2038 submitted for payment purposes) is never required by the USPTO to support a petition or an application. If this type of personal information is included in documents submitted to the USPTO, petitioners/applicants should consider redacting such personal information from the documents before submitting them to the USPTO. Petitioner/applicant is advised that the record of a patent application is available to the public after publication of the application (unless a non-publication request in compliance with 37 CFR 1.213(a) is made in the application) or issuance of a patent. Furthermore, the record from an abandoned application may also be available to the public if the application is referenced in a published application or an issued patent (see 37 CFR 1.14). Checks and credit card authorization forms PTO-2038 submitted for payment purposes are not retained in the application file and therefore are not publicly available.

Signature

15
March 9, 2007

Date

Kristofer E. Halvorson	39,211
Typed or printed name	Registration Number, if applicable
1757 E. Baseline Road, Suite 130	480-892-2037
Address	Telephone Number
Gilbert, AZ 85233	
Address	

Enclosure Fee Payment

- Reply
- Terminal Disclaimer Form
- Additional sheets containing statements establishing unavoidable delay
- _____

CERTIFICATE OF MAILING OR TRANSMISSION (37 CFR 1.8(a))

I hereby certify that this correspondence is being:

- deposited with the United States Postal Service on the date shown below with sufficient postage as first class mail in an envelope addressed to Mail Stop Petition, Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450.
- transmitted by facsimile on the date shown below to the United States Patent and Trademark Office at (512) 273-8300.

15
March 9, 2007

Date

Signature

Kristofer E. Halvorson

Typed or printed name of person signing certificate



PTO/SB/61 (09-06)

Approved for use through 03/31/2007. OMB 0651-0031
U.S. Patent and Trademark Office; U.S. DEPARTMENT OF COMMERCE

Under the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number.

PETITION FOR REVIVAL OF AN APPLICATION FOR PATENT ABANDONED UNAVOIDABLY UNDER 37 CFR 1.137(a)

NOTE: The following showing of the cause of unavoidable delay must be signed by all applicants or by any other party who is presenting statements concerning the cause of delay.

Signature

15

March 9, 2007

Date

Kristofer E. Halvorson

Typed or printed name

39,211

Registration Number, if applicable

(In the space provided below, please explain in detail the reasons for the delay in filing a proper reply.)

Documents and Fees Filed in Support of this Petition

In support of this petition to revive, Petitioner incorporates by reference all the documents in the application prosecution history and files herewith the following documents and fees:

- Memorandum Opinion, Court of Chancery of the State of Delaware in and for New Castle County, *Creative Research Manufacturing v. Advanced Bio-Delivery LLC and Phlo systems, Inc.*, Civil Action No. 1211-N, Decided January 30, 2007.
- Final Judgment and Order, Court of Chancery of the State of Delaware in and for New Castle County, *Creative Research Manufacturing v. Advanced Bio-Delivery LLC and Phlo systems, Inc.*, Civil Action No. 1211-N, Decided January 30, 2007.
- Affidavit of Cheryl R. Mitchell.
- Affidavit of James B. Mitchell.
- PTO Form SB/61: Petition for Revival of an Application for Patent Abandoned Unavoidably Under C.F.R. §1.137(a).
- PTO Form SB/81: Power of Attorney and Correspondence Address Indication Form.

Presentation of Facts

The facts involved in this case are provided in the documents set forth above and the prosecution history. Below is a summary.

This is a case of winning the battle, but unfairly losing the war. In 2001, Cheryl and James Mitchell were officers of Creative Research Manufacturing, Inc. ("CRM") which had a research agreement ("Alliance Agreement") with Phlo System, Inc. ("PSI") and Advanced Bio-Delivery LLC ("ABD"). Under the Alliance Agreement, various intellectual property was to be developed by CRM and assigned to ABD/PSI.

In 2003, Cheryl and James Mitchell developed a new composition for improving oral rehydration. Cheryl and James contacted patent attorney Kristofer E. Halvorson to draft and file the above mentioned application on July 7, 2003. Pursuant to the Alliance Agreement, Cheryl and James assigned the application to ABD/PSI on February 11, 2004.

Starting in February 2005, James B. Hovis, CEO of ABD/PSI took some extraordinary steps that severely damaged Cheryl and James. February 23, 2005, two days before accusing CRM of breaching the Alliance Agreement, Hovis as assignee of the application appointed his own counsel as attorney of record thereby stopping Cheryl and James from controlling prosecution of the application. CRM denied being in breach and filed suit on March 25, 2005 to recover the application. At some point, Hovis decided to not defend the suit. On January 24, 2006, two days before a scheduled hearing where CRM would again move for default judgment, Hovis drafted PTO Form SB/24 to expressly abandon the application. Hovis filed for express abandonment on January 26, 2006, the very day that CRM moved a second time for default judgment.

The final judgment entered January 30, 2007 in favor of CRM ruled that the "Alliance Agreement [was] void *ab initio*." Final Order and Judgment, paragraph 1. The court ruled that "[t]he assignment [of] . . . Patent Application No. 10/614,940 . . . is rescinded and of no force or effect." Final Order and Judgment, paragraph 3. The court further ruled that "[t]he Express Abandonment as filed by the Defendant . . . is deemed invalid *ab initio* as between the parties in this case." Final Order and Judgment, paragraph 4.

Cheryl and James won the court battle, but were unfairly deprived of justly receiving the return of their property due to the unfair actions Hovis took to abandon the application. Petitioner requests that the Commissioner act in the interest of justice to restore to application to Petitioner.

Action Requested Under 37 C.F.R. §1.137(a)

In determining if a delay was unavoidable, decisions on reviving abandoned applications have adopted the standard of the reasonable prudent person acting in their most important business matters. *Ex parte Pratt*, 1887 Dec. Comm'r Pat. 31, 32 – 33 (Comm'r Pat. 1887). At bottom, the question is one of diligence. See *Changes to Patent Practice and Procedure: Final Rule Notice*, 62 Fed. Reg. at 53158-59 (October 10, 1997); *Ray v. Lehman*, 55 F.3d 606, 608 – 609, 34 USPQ2d 1786, 1787 (Fed. Cir. 1995). The Petitioner must provide direct evidence proving exactly a factual basis supporting a showing of unavoidable delay required for relief to be granted. *Krahn v. Commissioner*, 15 USPQ2d 1823 (E.D. Va. 1990).

Petitioners Cheryl R. Mitchell and James B. Mitchell are the inventors of Application No. 10/614,940. See Declaration and Power of Attorney, prosecution history, filed 7/7/ 2003. Petitioner assigned the application to Phlo System, Inc. ("PSI") on February 11, 2004. See Assignment by Inventors of Patents, prosecution history, filed 03/07/2005. On March 7, 2005, the assignee, PSI, appointed its own attorney of record. See Power of Attorney and Correspondence Address Indication Form, prosecution history, filed 03/07/2005. After the assignment by inventors on February 11, 2004, the petitioners did not have control of the prosecution of the application. After March 7, 2005, previously appointed counsel, Kristofer E. Halvorson, and Petitioner did not have control of the prosecution of the application. On April 24, 2006, Mr. Halvorson filed a petition on behalf of Petitioner to revive the application. The petition was denied

because, *inter alia*, the attorney of the Office of Petitions found that Mr. Halvorson was not the attorney of record. See Petition Decision, prosecution history, pg. 1, filed 06/07/2006 ("as of 7 March, 2005, Petitioner no longer was empowered to prosecute the instant application"). Accordingly, Petitioner could not exercise control over the application or the prosecution of the application after February 11, 2004.

Before February 11, 2004, no Office Action had issued and no response from the inventors was outstanding. Petitioner exercised diligence in prosecuting the application until their control over prosecution was assigned on February 11, 2004.

Between February 11, 2004 and the filing of this petition, the assignee filed for express abandonment of the application. See Transmittal Letter for Filing Express Abandonment, prosecution history, filed 01/26/2006. At the time, Petitioner was involved in litigation with the assignee to adjudicate ownership of the application. When Petitioner discovered that the assignee had abandoned the application, Petitioner immediately filed a petition to revive. As set forth above, the petition to revive was denied. In spite of Petitioner's diligence in filing the earlier petition, Petitioner's actions could have no effect until the litigation was concluded and ownership of the application returned to Petitioner.

On January 30, 2007, the Chancery Court of Delaware issued a Memorandum Opinion and a Final Judgment and Order, both filed herewith. The court ruled that "[t]he assignment [of] . . . Patent Application No. 10/614,940 . . . is rescinded and of no force or effect." See Final Order and Judgment, paragraph 3. The court further ruled that "[t]he Express Abandonment as filed by the Defendant . . . is deemed invalid *ab initio* as between the parties in this case. See Final Order and Judgment, paragraph 4.

The lapse of prosecution by Petitioner was unavoidable. Petitioner acted as a reasonably prudent person in the prosecution of the application as long as it was within Petitioner's power to control the prosecution. Petitioner diligently sought to protect Petitioner's property by filing suit and the prior petition to revive upon discovery of the express abandonment. As the Memorandum Opinion shows, the Petitioner was diligent even in the litigation. Any delay by Petitioner in this matter was completely unavoidable because Petitioner had to wait for the resolution of ownership by the court.

Petitioner requests that the Commissioner:

- Adopt the ruling of the Court of Chancery of Delaware that (1) the assignment is of no force or effect and (2) the express abandonment is invalid *ab initio*;
- Accept the appointment of Kristofer E. Halvorson as the attorney of record;
- Find that Petitioner was diligent in prosecuting the application;
- Find that the delay by Petitioner in prosecuting the application was unavoidable;
- Revive the application.

(Please attach additional sheets if additional space is needed.)